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WRB - Q2 2017 W. R. Berkley Corp Earnings Call

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PRESENTATION

Operator

Good day, and welcome to the Robert Berkley Corporation's Second Quarter 2017 Earnings Conference Call. Today's conference call is being recorded. The speakers' remarks may contain forward-looking statements. Some of the forward-looking statements can be identified by the use of forward-looking words including, without limitation, believes, expects or estimates. We caution you that such forward-looking statements should not be regarded as representation by us that the future plans, the estimates or expectations contemplated by us will, in fact, be achieved. Please refer to our annual report on Form 10-K for the year ended December 31, 2016, and other filings made with the SEC for a description of the business environment in which we operate and the important factors that may materially affect our results. Robert Berkley Corporation is not under any obligation and expressly disclaims any such obligation to update or alter its forward-looking statements, whether as a result of new information, further events or otherwise. I would now like to turn the call over to Mr. Robert Berkley. Please go ahead, sir.

William Robert Berkley - *W. R. Berkley Corporation - Founder and Executive Chairman*

Bruce, thank you very much, and good afternoon, all. Thank you for calling in this afternoon. Let me just clarify something to avoid any misunderstanding. The name of the company is still W.R. Berkley Corporation and I'm still Robert Berkley. We have not changed the name the company and I'm still employed, at least for the moment.

So on this end of the phone, as in the past, we have our Executive Chairman, who the business is named after, Bill Berkley; we also have Gene Ballard, our Executive Vice President; and Rich Baio, our Chief Financial Officer, joining.

So the agenda for the call, similar to what we've done in the past. I'm going to start out with some macro comments, some thoughts, if you will, on the industry. I'll give you a few sound bites on my take on our quarter, and then I'm going to hand it over to Rich to give you some color on the quarter at a more granular level.

So the insurance market, clearly, going through a time of transition from our perspective. Without a doubt, there is a growing groundswell of competition. You can see it manifesting itself in a couple of different ways. A couple of macro observations would be the standard markets, particularly national carrier, seems to be expanding their appetite and spilling over into what, for a while, had been viewed as specialty market exposure. We also are seeing state assigned risk plans beginning to depopulate again as carriers are, I guess, expanding their appetite, if you will.

Having said that, it's times like this when we are going through a period of transition where we believe knowledge and expertise is the great differentiator. When we see what's going on amongst some carriers out there that are new to certain product lines or new to parts of the market



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growing very aggressively, it does make us pause and scratch our head as to how this will end for them, and we think that we will be benefiting again from our knowledge, expertise and experience.

Getting a little more granular, specifically around workers' compensation. Rating bureaus have and will continue, it would seem, for the foreseeable future to be taking rating action, moving rates down, which is a bit of a challenge or a further headwind.

Casualty in general remains good, and we are encouraged with the margin that, generally speaking, is available there. Property on the other hand continues to be concerning. And professional is deteriorating a bit and that's something that we're paying close attention to.

Commercial auto is clearly also improving. Having said that, we do not believe it has gotten to the point that it needs to get to for us to really want to start to open the spigot, if you will.

The reinsurance market continues to be concerning to us. And quite frankly, from our perspective, we can't really offer any great insight into it other than the benign cat environment has allowed people to benefit from that and that has been subsidizing the balance of their business.

A few other macro comments from my perspective on the marketplace overall. Certainly over the past several years, we have seen more and more progress and to a certain extent chatter and buzz around data and analytics. More recently, there have been new technologies that are developed and insurer tech has become, sort of, the flavor of the day to a certain extent. Having said this, we think all of these tools have great value and we are users of them. And quite frankly, we are investors in some insurer tech opportunities. Having said that, from our perspective, when the day's all done, these are just tools. And ultimately, how effective they are, how helpful they are will be determined by the people who are using them and the expertise that they have.

Another macro observation would be that the industry is going through clearly what is going to be a different type of change than it has seen at least as long as we can remember. We are an industry that, historically and today, sell product to customers in a manner where we sell them what we want and we give it to them the way we want to give it to them or distribute it the way we want to. It is our view that going forward over time, you're going to see a bit of an evolution where customers are going to drive more and more what the product is and how it is distributed. And the, if you will, buffer known as regulation that has kept much of the change from occurring today is also primed for a degree of change as regulators are becoming more in touch with the needs of society and looking to be responsive to that.

Switching over to our quarter. Top line, stating the obvious, presumably you all saw it in the release. Our top line was off about 5%. That was primarily driven by the reinsurance business and more specifically by BRAM, our domestic reinsurance treaty operation. We also had parts of the insurance business that faced a little bit of either a headwind where the business shrink a little bit, or more often than not, it was what we would define as places where we did not like the margin in the business and we were just dialing it down a bit. Overall, we think that this is going to create opportunity for us from a margin perspective, and we would view it as addition through subtraction.

A couple of other comments on the top line, if you will, as it relates to rate. Rate increased by just shy of 1%. The renewal-retention ratio was just short of 80%, and the new business relativity was basically 1:1. So in other words, our new business and our renewal business were basically primed up, priced equally.

The loss ratio for the quarter coming in at 61.5% was partially negatively impacted by storms. Having said that, while our definition of storms are capped, as Rich will be talking about shortly, it was a little bit lighter than it was from the period -- corresponding period last year. Weather related seems to make up for that. Paid loss ratio came in at a 55.9%.

And a couple other comments. The FX was off -- that we had -- a couple of other comments as it relates to FX in particular was something that had a negative impact on the quarter to the tune of \$7 million.

As it relates to the expense ratio, we certainly saw improvement on the reinsurance front. That was mainly due to an improvement in ceding commissions. On the other hand, the insurance segments deteriorated a bit, and that stems from some of the younger businesses or businesses that are still in their infancy and their earned premium has not built yet.



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A couple of quick comments on the investment portfolio. And Rich will be getting into this in more detail. But the duration remains relatively short at 3 years compared to the duration of our reserves. And the yield actually improved a couple -- at the back, 20 basis points. And again, Rich is going to be covering that.

One other piece that presented a bit of an issue for us in the quarter was the funds. From our perspective, the funds go up, the funds go down depending on the quarter. This quarter was negatively impacted by energy prices, specifically oil, and how it impacted a couple of equities that we own through funds.

The gains came through in a relatively meaningful way. Most of that was driven by sale of HealthEquity shares that we have. From our perspective, gains are a meaningful part of our investment strategy. And we -- as also announced, that we see rate benefits coming through in the third quarter.

I'm going to pause there and hand it over to Rich to get into the numbers in a little bit more detail.

Richard M. Baio - *W. R. Berkley Corporation - CFO, SVP and Treasurer*

Thanks, Rob. Appreciate it. We have reported net income of \$109 million or \$0.85 per share, which is unchanged from the prior year's quarter. Our total return investment strategy continues to pay off with pretax realized investment gains of \$40 million for the quarter and \$93 million year to date. Net investment income also increased 4.8% quarter-over-quarter while year-to-date investment income rose 9.6%.

In light of the increasingly competitive market conditions, as Rob was alluding to, we're pleased with our pretax underwriting results of \$76 million for the second quarter. This represents a small decline of \$3 million from the prior year, largely due to a more active combined catastrophe and non-cat weather-related loss environment in the quarter.

Certain areas in the market are too competitive to meet our risk-adjusted returns. And as a result, we've repositioned certain of our underwriting portfolio and managed our risk selection and exposures, giving rise to a decline in our net premiums written of 4.8% to \$1.56 billion. Much of this decline is attributed to the North American property and casualty treaty reinsurance business, as Rob referenced, where sources of capital are plentiful, putting significant downward pressure on rate.

Our reinsurance segment declined almost \$53 million to \$126 million in the quarter. The insurance segment experienced a small decline in net premiums written of 1.7%, which was largely attributable to the exit of a few lines of business at certain operating units due to the inadequate opportunities to achieve targeted risk-adjusted returns.

The accident year loss ratio before cat was 60.7% compared with 60.2% a year ago. About half of the difference relates to non-cat weather-related losses, which equated to 70 basis points in the current quarter. Cat losses declined \$7.5 million from a year ago to \$33 million. This translates into 2.1 loss points for 2017 compared with 2.6 loss points for 2016. Loss reserves developed favorably by \$21 million or 1.3 loss points compared with \$16 million or 1 loss point for the same period last year. Accordingly, our reported loss ratio improved from 61.8% a year ago to 61.5% for the current quarter.

The expense ratio increased 50 basis points in total from the year-ago quarter to 33.6%. The increase was primarily attributable to the addition of new operations in the insurance segment, in particular Cyber Risk, Berkley Transactional Insurance and our recently announced surety and specialty commercial insurance businesses in Mexico. This brings our combined ratio to 95.1% for the current quarter compared with 94.9% for the second quarter of 2016.

We're pleased with the performance of our investment portfolio. The core portfolio increased \$14 million compared to a year ago, led by fixed income securities with an annualized yield of 3.4%. Investment funds declined \$9 million due to mark-to-market adjustments for energy funds. We've pointed out the potential variability that may arise in the fund performance on a quarterly basis, as evidenced in the current quarter. However, the year-to-date results show that the funds are slightly higher in 2017 than 2016 and future variability will remain on a quarterly basis.



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Our non-insurance business earnings declined year-over-year due to the sale of Aero Precision Industries in August 2016. The remaining investments are performing as expected and should generate favorable total returns for our shareholders.

Foreign currency movements, especially sterling, contributed to a foreign exchange loss in the quarter of \$7 million. That compares to a gain in the prior year of \$13 million following the Brexit vote. Our results quarter-over-quarter were most impacted by this \$20 million shift in FX. We manage our foreign currency exposure on a long-term economic basis, taking into consideration numerous risk factors.

Corporate expenses increased in the quarter, reflecting our investment in new business opportunities, including our high net worth business. We expect the high net worth operation to begin underwriting business in the fourth quarter. When we move the business to the insurance segment, these expenses will be reflected in the underwriting expense ratio.

At June 30, 2017, after-tax unrealized investment gains were \$462 million, up about \$35 million from the beginning of the year. This amount does not include the preannounced \$120 million pretax realized investment gains to be recognized in the third quarter from the sale of a real estate investment. The after-tax gain should contribute an additional \$0.64 to book value per share in the third quarter.

The average rating, as Rob referenced, was unchanged at AA-, and the average duration for the fixed income maturity securities, including cash and cash equivalents, remained at 3 years. The effective tax rate was 31.9%, approximately 1 point higher than our historic run rate due to the disproportionate contribution of gains in the quarter at 35%.

Our return on equity for the quarter on an annualized basis was 8.6% on a net income basis and 12.7% on a pretax earnings basis. Book value per share increased \$0.86 to \$43.59 in the quarter, representing an annualized increase of 8.1% after our special dividend of \$0.50 per share declared in the second quarter. Thanks, Rob.

William Robert Berkley - *W. R. Berkley Corporation - Founder and Executive Chairman*

Thank you, Rich. Bruce, at this time, we'd like to open it up for questions. And all 4 of us are here to try and answer any questions people may have on the quarter or beyond. Thank you.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question comes from Arash Soleimani from KBW.

Arash Soleimani - *Keefe, Bruyette, & Woods, Inc., Research Division - Assistant VP*

Can you -- the \$21 million of favorable development, can you break that out between insurance and reinsurance?

William Robert Berkley - *W. R. Berkley Corporation - Founder and Executive Chairman*

Yes, we typically don't go into that detail. But it will be in the Q.

Arash Soleimani - *Keefe, Bruyette, & Woods, Inc., Research Division - Assistant VP*

Okay. And last call, you had mentioned potentially seeing signs of increasing loss inflation. I just wanted to know if you could provide some updated thoughts around that, please.



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William Robert Berkley - *W. R. Berkley Corporation - Founder and Executive Chairman*

Yes. Honestly, I think we did talk about it last quarter and it's something that we're paying close attention to. But it doesn't really move that much in a 90-day period. We certainly are conscious of some of the things I think we talked about last time around as to what we're seeing in the legal environment and awards moving up, and that's something that we continue to pay attention to. But again, we wouldn't want to leap to one conclusion or another after a 90-day period. But it remains something that we're sensitive to.

Arash Soleimani - *Keefe, Bruyette, & Woods, Inc., Research Division - Assistant VP*

My last question. I know it's a smaller piece, but can you just provide a reminder of what runs through the arbitrage trading account?

William Robert Berkley - *W. R. Berkley Corporation - Founder and Executive Chairman*

Rich, do you want to comment on that?

Richard M. Baio - *W. R. Berkley Corporation - CFO, SVP and Treasurer*

So we have a merger arbitrage trading account effectively and we are only investing in announced transactions. And those transactions generally are very short term in nature in terms of less than a 4-month period of time.

Operator

And our next question comes from Ryan Tunis from Crédit Suisse.

Ryan James Tunis - *Crédit Suisse AG, Research Division - Senior Analyst*

I guess my first question is just on reinsurance premium growth. And I think you guys said it was North American treaty. Conditions are competitive. I guess the question is it seems like conditions have been pretty competitive there for several years and we've seen just kind of an acceleration of a decline in premiums barrier in '17. I guess sort of what is different now relative to maybe what you would have seen in '16 when you were renewing that business?

William Robert Berkley - *W. R. Berkley Corporation - Founder and Executive Chairman*

Yes, I think what happens is that you get to a point where you say no more. And we are in the market every day. It's not that we're not in the market any longer. But we have a view as to what type of return we're willing to accept and we have a view as to how flexible we are prepared to be throughout the cycle. And once you get to a breaking point, we are prepared to say no more. We have a pretty straightforward view. We are in business to make money. And if we don't think we can make good risk-adjusted returns, recognizing things such as relationship matter and you need to take a long-term view throughout the cycle. But there is a breaking point there, too. And in many of these situations, that -- quite frankly, or relationships or accounts that have moved away from us because they can find cheap capacity than they can arbitrage and they are not looking to partner with, well, we accept that reality.

Ryan James Tunis - *Crédit Suisse AG, Research Division - Senior Analyst*

So has the longer-term view of the attractability of that business changed at all? Or should we just be thinking about that through the cycle?

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William Robert Berkley - *W. R. Berkley Corporation - Founder and Executive Chairman*

No, no, no. We believe that the reinsurance business is still an attractive business. And we are fully committed to it. Having said that, we also recognize some of the imperfections in the business and we are not going to expose capital in a manner that we don't think makes sense.

Ryan James Tunis - *Crédit Suisse AG, Research Division - Senior Analyst*

Got you. And then just I guess in primary insurance. I mean, if you could just remind us, I think there's been an upward tick on the expense ratio from new business starts. That's always been a Berkley thing to do, the organic grow of that. I'm just curious, over a longer time period, I think if we were to look back 3 or 5-year -- 3 to 5 years, some time frame, what percentage of your premium today comes from those type of new business starts? I'm just kind of trying to get a feel for how significant all of it is today in the expense headwind, what that could be in the future in terms of your overall NPW.

William Robert Berkley - *W. R. Berkley Corporation - Founder and Executive Chairman*

Well, the businesses that we have in their infancy that are having a negative impact on the expense ratio, and I think Rich mentioned them earlier, combined with some of the things that we have in the incubator, if you like, that are contributing to the corporate expense line, our view is, depending on what the horizon that you'd like to use, those businesses will contribute premium that, certainly, in less than 5 years, will be literally hundreds and hundreds of millions of dollars of premium would be our expectation. And as far as -- okay.

Operator

And our next question comes from Kai Pan from Morgan Stanley.

Kai Pan - *Morgan Stanley, Research Division - Executive Director*

First question on the investment side. Your investment fund return are reported on a lag basis, is that right?

William Robert Berkley - *W. R. Berkley Corporation - Founder and Executive Chairman*

Correct. The funds are in a quarterly lag.

Kai Pan - *Morgan Stanley, Research Division - Executive Director*

Do you have any early indication for the third quarter?

William Robert Berkley - *W. R. Berkley Corporation - Founder and Executive Chairman*

I think that we don't provide those numbers of those -- that type of guidance. But as suggested earlier, obviously, we have some exposure to energy. And I'm sure you have a sense as to where energy prices are just like everybody else.



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Kai Pan - Morgan Stanley, Research Division - Executive Director

Okay, that's great. And then on your realized gains then, it looks like the \$40 million this quarter or next quarter is going to be \$120 million or more. And so that's kind of run rate even though there's volatility from quarter-to-quarter way above your \$100 million kind of guidance that you talked about in the past.

William Robert Berkley - W. R. Berkley Corporation - Founder and Executive Chairman

That's correct. But as we've also talked about in the past, it's lumpy, right? And we have accepted that lumpiness, which doesn't always suit people who are in your line of business that are trying to predict. But ultimately, while we're interested in what you're trying to do, we work for the shareholders and are focused on the total return. So the run rate is up substantially this year, as mentioned in our prior release and Rich referenced as well and I tried to reference when I was choking before. We're going to have a big gain coming through in the third quarter. And between what we've had so far this year as well as what's coming through in the third quarter, it is going to be a big year for us. But again, it is going to be lumpy. Having said that, I think it is the -- our general view that what you see on our balance sheet does not fully reflect at all the gains that we see that exist in our investment portfolio.

William Robert Berkley - W. R. Berkley Corporation - Founder and Executive Chairman

This is Bill. I think that it's important to understand that while HealthEquity represents a substantial part of our unrealized gains and is, in fact, reflected on our balance sheet, most of the gains we are showing come from other non-securities kinds of gains that are businesses we own, that we bought for the purpose of selling, real estate that we own and other kinds of non-securities transaction. So they're not mark-to-market on the balance sheet. Those are carried across until we realize them. So as we've discussed in the past, there's quite a few hundred millions of dollars of unrealized gains that aren't reflected on the balance sheet but that will come through. So for example, the building we sold was already on the balance sheet. The gain wasn't reflected. We expect that there are other things like that will come through over the next year or 2 or 3 or 4.

Kai Pan - Morgan Stanley, Research Division - Executive Director

That's great, Bill. Can you talk maybe more about the general sort of the market basically in terms of investment side? Are you more in a harvesting mode in monetizing the gains? Or are you -- basically do you see potential downside in the market?

William Robert Berkley - W. R. Berkley Corporation - Founder and Executive Chairman

The kinds of things that we've invested in are long-term investments. Everything reaches its peak at a different time. So what's a great time to harvest today in New York may not be a great time in Washington or in Florida or in some place. So I think that there's no generality we can give. We sold a private equity business and -- or another one went public and we kept a lot of our shares. I mean, every private equity investment, every real estate investment, every kind of investment like that has its own cycle. And there's -- it's not a mode of harvesting or whatever. It's -- we've been doing this for a while. Some of them have matured and are good opportunities, and some of them we'll keep for an extended period of time.

Kai Pan - Morgan Stanley, Research Division - Executive Director

Okay. On the -- the following question on the underwriting side. You saw some of the standard carriers, so they're talking about pricing stabilized or even increased. At the same time, you're talking more about their growing premiums. At the same time, you saw increasing competition in the marketplace and you're shrinking your premiums. I'm just trying to compare and contrast to see if you can provide any more details.



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William Robert Berkley - *W. R. Berkley Corporation - Founder and Executive Chairman*

Sure. So for starters, I think it's important to understand that one needs to use a very fine brush. So there are parts of our business, particularly in the insurance segment, where we are growing and we are seeing great opportunity. There are other parts of our business that we are contracting, and there are a few isolated situations where we have decided to withdraw from a particular class or a particular line of business in a particular geography. I think from my perspective, the market is not a situation where the bottom has fallen out. I think that there are still meaningful opportunities, particularly in the reinsurance space -- excuse me, in the insurance space. Having said that, I think there is no doubt that it is becoming more competitive. And I think that the rate that people are getting in the auto space is, to a certain extent, overshadowing some of the challenges that people face when it comes to rate in other product lines. Workers' compensation would be an example of that. So I'm not aware or in touch exactly with what other people are doing. I just know what we see in the marketplace, and I think that there are still clearly opportunities and there are ways for us to grow our business. But there are parts of the marketplace that are, without a doubt, more challenging today than they were yesterday.

Operator

(Operator Instructions) Our next question comes from Howard Flinker from Flinker Company.

Howard Flinker

I'm going to remind you of a terrific position you guys made a few years ago and then I'm going to ask what you see. Right after BP blew up in the Gulf of Mexico, you guys decided that it was time to provide coverage in what was a marketplace that was probably rife with scared underwriters. And of course, rates went up a lot right after you started writing business. What do you see now? I'm just curious. I'm comparing a rising demand from activity in the oil business against rising supply of too many people from our business plowing money into the property and casualty sector. So back to the oil business, what do you see, just generally?

William Robert Berkley - *W. R. Berkley Corporation - Founder and Executive Chairman*

What do we see in the oil business as it relates to the insurance industry serving the oil industry?

Howard Flinker

Yes, yes. Sorry, I wasn't...

William Robert Berkley - *W. R. Berkley Corporation - Founder and Executive Chairman*

We find it to be, at this moment in time, exceptionally competitive. Particularly the offshore is very competitive. Having said that, there are signs that it is bottoming out. And obviously, the health and the prosperity of insurers in the oil and gas industry have an impact on the opportunity for the insurance industry that's serving them.

Howard Flinker

So that's kind of a barometer of what's going on in the rest of the business. When you went into certain sectors, supply was short and prices favored you. Now supply is plentiful and prices aren't as good. Is that a fair assessment?



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William Robert Berkley - *W. R. Berkley Corporation - Founder and Executive Chairman*

Well, I think that again, one needs to use a finer brush. From our perspective, we're in the marketplace every day trying to offer continuity in the market, and there are moments in time that the market moves away from us because others are willing to offer product at a cheaper price. And often times, over time, that will move back to us.

Operator

And our next question comes from Brian Meredith from UBS.

Brian Robert Meredith - *UBS Investment Bank, Research Division - Former President & COO - USC Education Savings Plans Inc. - Administrator*

A couple ones here for you, Rob. First of all, the worker's compensation insurance growth that you guys are seeing at 8%, is that new accounts? Or is that wage inflation that you're seeing in comp given the competitive price environment?

William Robert Berkley - *W. R. Berkley Corporation - Founder and Executive Chairman*

It's a combination of both. Part of it is underlying wages going up. And also, my comments again tend to be with a very broad brush. So there are parts of the workers' comp market that we think remain exceptionally attractive. I think if you go back 2 years ago, one didn't need to use such a fine brush. You could write more of a quota share, if you will, on the comp market overall and you do okay. These days, you can't do that. You need to use a laser. And -- but there are parts of the market that we still find very attractive.

Brian Robert Meredith - *UBS Investment Bank, Research Division - Former President & COO - USC Education Savings Plans Inc. - Administrator*

Excellent. And then, Rob, I wanted to talk a little bit more, flesh out a little bit more of your comment about the national accounts kind of getting into the -- standard carriers getting into more of the specialty. Are you referring to basically them relaxing some of their underwriting standards here and taking a nonstandard risk and making it standard? Or are they actually getting into specialty areas?

William Robert Berkley - *W. R. Berkley Corporation - Founder and Executive Chairman*

It's -- from my perspective, we are seeing them broaden their appetite, having retracted over a few years. And now they're stepping back in and broadening their appetite. It's not that they're necessarily starting a new venture, so to speak, and going into the specialty space as much standard line underwriters seem to be spreading their wings a little bit and broadening their appetite, which we've seen in the past and I suspect we'll see again in the future. But that is one of the leading indicators that makes one wonder where the market is going.

Operator

And we have a follow-up from the line of Kai Pan from Morgan Stanley.

Kai Pan - *Morgan Stanley, Research Division - Executive Director*

First one is on the capital management. It looks like you prefer now to using special dividends rather than share buybacks. I just wonder, your capital management sort of strategies, do you feel it's particularly because of the stock valuation or something else?



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William Robert Berkley - *W. R. Berkley Corporation - Founder and Executive Chairman*

We follow an opportunistic direction, as you know. We try to measure what we can do with returns, what we do with stock buybacks or whether we see opportunities within sight lines for expanding the business in one way or the other. And it's a constant evaluation of what there is, and Rob and I generally sit down and make that assessment. And it's just a constant evaluation of what's going on. And certainly, it's impacted by the number of realized gains, which add immediate additional capital to our financial statements even more than we would expect in our ordinary operating income.

Kai Pan - *Morgan Stanley, Research Division - Executive Director*

Okay. Last one on the expense ratio. [Derivative] will be higher in the insurance operation. I just wonder, will that be kind of steady state for now? Or can derivative be higher as you're making some new investment in the new initiatives? And before it is coming down, will you have leverage in the business, new business?

William Robert Berkley - *W. R. Berkley Corporation - Founder and Executive Chairman*

So I think that's really going to be driven by a couple of things and we have pieces moving in both direction, right? One piece is some of the businesses that Rich has mentioned as well as others. They will be getting critical mass over time and their earned premium will build and you will see them become less of a drag over time. On the other hand, as suggested in Berkley One being an example, that is going to be shifting over from corporate expense into the expense ratio. In all likelihood, we would expect them in the fourth quarter as it becomes operational. So long story short, I would expect that the impact in the fourth quarter from Berkley One will offset or perhaps offset and then some any benefits that we get from the existing businesses leveraging their expenses.

Operator

And at this time, I'm showing no further questions.

William Robert Berkley - *W. R. Berkley Corporation - Founder and Executive Chairman*

Okay. Well, thank you very much, all, for joining us. From our perspective, it was a quarter that, by and large, was in line with our expectations. As far as the loss activity goes, the top line, I think, is just a reflection of our underwriting discipline and our commitment to deploy capital in a manner that we think makes sense. As I was suggesting earlier, we do think that the actions that we're taking now are going to have a meaningful impact on our underwriting margin as these actions begin to earn through. And when the day's all done, we are very focused on one thing, and that is risk-adjusted return and how we apply that to our underwriting activities as well as our investment activities.

So thank you again for calling and we will speak with you in 90 days. Thank you, Bruce.

Operator

Ladies and gentlemen, thank you for your participation in today's conference, and this does conclude the program. You may all disconnect. Everyone, have a great day.



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